

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
INDEPENDENT AUDITOR'S REPORT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FINANCIAL STATEMENTS AND ACCOMPANYING INFORMATION  
COMMENTS AND RECOMMENDATIONS  
YEARS ENDED JUNE 30, 2006 AND 2005

# MONTGOMERY COUNTY MEMORIAL HOSPITAL

## CONTENTS

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS:	
Balance Sheets	5
Statements of Revenues, Expenses and Changes in Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Budgetary Comparison Schedule	23
ACCOMPANYING INFORMATION:	
Schedules Supporting Balance Sheets:	
Patient receivables	24
Inventory/Prepaid expense	25
Schedules Supporting Statements of Revenues, Expenses and Changes in Net Assets:	
Patient service revenue	26
Revenue and related adjustments	27
Nursing service expenses	28
Other professional service expenses	31
General service expenses	36
Fiscal and administrative service expenses	37
Comparative Statistics	39
Comparative Balance Sheets	40
Comparative Statements of Revenues and Expenses	41
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	42
Schedule of Findings	44

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Officials  
June 30, 2006

<u>Board of Trustees:</u>	<u>Address</u>	<u>Term Expires</u>
Sarah Smith, Chair	Red Oak, Iowa	2008
Kenneth Rech, Vice-Chair	Red Oak, Iowa	2006
Jim Robinson, Treasurer	Villisca, Iowa	2010
Helen Murphy, Secretary	Red Oak, Iowa	2006
Lorin Petersen	Stanton, Iowa	2008
Roger Ehmke	Red Oak, Iowa	2010
Jim Sifford	Red Oak, Iowa	2006
<u>Chief Executive Officer:</u>		
Allen E. Pohren	Red Oak, Iowa	
<u>Chief Financial Officer:</u>		
Rick Leinen	Red Oak, Iowa	

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

ROGER A. BELL  
MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Montgomery County Memorial Hospital  
Red Oak, Iowa

We have audited the accompanying balance sheets of Montgomery County Memorial Hospital as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montgomery County Memorial Hospital as of June 30, 2006 and 2005, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2006 on our consideration of Montgomery County Memorial Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the Board of Trustees  
Montgomery County Memorial Hospital

The management's discussion and analysis and budgetary comparison schedule on pages 4 through 4d and 23 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The accompanying information (shown on pages 24 through 41) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*G. Arnold, Bell, Kuhn & Co. P.C.*

Atlantic, Iowa  
December 5, 2006



# Montgomery County Memorial Hospital

2301 Eastern Avenue • P.O. Box 498 • Red Oak, Iowa 51566 • Phone 712-623-7000

## MONTGOMERY COUNTY MEMORIAL HOSPITAL Management's Discussion and Analysis

Our discussion and analysis of Montgomery County Memorial Hospital's financial performance provides an overview of the Hospital's financial activity for the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Hospital's financial statements, which begin on page 5.

### FINANCIAL HIGHLIGHTS

The Hospital's net assets increased in each of the past two years with a \$2,301,813 or 13.1 percent increase in 2006 and \$2,284,116 or 15.0 percent increase in 2005.

The Hospital reported an operating income in 2006 of \$792,758 and \$880,138 in 2005. The operating income in 2006 decreased \$87,380 or 9.9 percent from the income in 2005. In 2004, the Hospital reported an operating loss of (\$1,124,099). There was a significant improvement in operating income from 2004 to 2005, an increase of \$2,004,237.

Nonoperating revenues increased in 2006 by \$112,077 or 8.3 percent compared to 2005. Nonoperating revenues increased in 2005 by \$233,042 or 20.8 percent compared to 2004.

### USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

### THE BALANCE SHEET AND STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Our analysis of the Hospital finances begins on page 4a. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net assets and changes in them. You can think of the Hospital's net assets - the difference between assets and liabilities - as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

## THE STATEMENT OF CASH FLOWS

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

## THE HOSPITAL'S NET ASSETS

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet on page 5. The Hospitals' net assets increased \$2,301,813 or 13.1 percent in 2006 and \$2,284,116 or 15.0 percent in 2005, as you can see in Table 1.

Table 1: Assets, Liabilities, and Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Assets:</b>			
Current assets	\$ 7,354,583	\$ 8,767,002	\$ 6,977,405
Capital assets, net	9,417,528	8,855,079	9,027,837
Other noncurrent assets	<u>9,423,421</u>	<u>7,447,206</u>	<u>6,749,529</u>
Total assets	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>
<b>Liabilities:</b>			
Long-term debt outstanding	\$ 3,083,816	\$ 3,576,716	\$ 4,113,868
Other current and noncurrent liabilities	<u>3,266,344</u>	<u>3,949,012</u>	<u>3,381,460</u>
Total liabilities	<u>\$ 6,350,160</u>	<u>\$ 7,525,728</u>	<u>\$ 7,495,328</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	\$ 5,405,563	\$ 4,202,282	\$ 3,755,421
Restricted expendable net assets	986,127	976,232	1,078,376
Unrestricted	<u>13,453,682</u>	<u>12,365,045</u>	<u>10,425,646</u>
Total net assets	<u>\$ 19,845,372</u>	<u>\$ 17,543,559</u>	<u>\$ 15,259,443</u>
Total liabilities and net assets	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>	<u>\$ 22,754,771</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Management's Discussion and Analysis - Continued

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET ASSETS

Table 2 shows the components of the operating and nonoperating activities and the resulting effect on changes in net assets.

Table 2: Operating Results and Changes in Net Assets

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Revenues:			
Net patient service revenues	\$ 20,475,146	\$ 18,910,939	\$ 15,888,189
Other operating revenues	<u>410,356</u>	<u>453,648</u>	<u>457,592</u>
Total operating revenues	20,885,502	19,364,587	16,345,781
Operating Expenses:			
Salaries and wages	9,467,498	8,777,461	8,118,901
Employee benefits	2,608,108	2,195,066	2,079,962
Professional fees	988,114	990,878	1,047,324
Other operating expenses	5,838,749	5,500,289	5,126,880
Depreciation and amortization	<u>1,190,275</u>	<u>1,020,755</u>	<u>1,096,813</u>
Total operating expenses	20,092,744	18,484,449	17,469,880
Operating income (loss)	792,758	880,138	( 1,124,099)
Nonoperating Revenues and Expenses:			
Property taxes	1,226,600	1,214,764	1,230,042
Investment income	313,831	207,081	92,005
Noncapital grants and contributions	60,672	111,223	73,535
Other nonoperating revenues and expenses, net	<u>( 134,048)</u>	<u>( 178,090)</u>	<u>( 273,646)</u>
Total nonoperating revenues (expenses)	1,467,055	1,354,978	1,121,936
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,259,813	2,235,116	( 2,163)
Capital Grants and Contributions	<u>42,000</u>	<u>49,000</u>	<u>55,000</u>
Excess of Revenues Over Expenses and Increase in Net Assets	2,301,813	2,284,116	52,837
Net Assets Beginning of Year	<u>17,543,559</u>	<u>15,259,443</u>	<u>15,206,606</u>
Net Assets End of Year	<u>\$ 19,845,372</u>	<u>\$ 17,543,559</u>	<u>\$ 15,259,443</u>



**MONTGOMERY COUNTY MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis - Continued**

**OPERATING INCOME AND LOSS**

The first component of the overall change in the Hospital's net assets is its operating income (loss) - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In both 2006 and 2005, the Hospital has had an operating income, \$792,758 in 2006 and \$880,138 in 2005. In 2004, the Hospital reported an operating loss of (\$1,124,099). The operating income in 2006 represents a decrease of \$87,380 from the income in 2005. The operating income 2005 was an increase of \$2,004,237 over the loss in 2004.

The primary components of these operating income and operating losses are:

Contractual adjustments decreased \$534,820 or 6.9 percent from 2005 to 2006, and decreased \$2,324,876 or 23 percent from 2004 to 2005. In 2006, contractual adjustments are 25.3 percent of patient service revenue, compared to 28.3 percent of patient service revenue in 2005 and 38.0 percent of patient service revenue in 2004. The primary reason for this improvement is the Hospital's designation as a Critical Access Hospital effective October 1, 2004 by the Centers for Medicare and Medicaid Services. As a Critical Access Hospital, the Hospital receives cost-based reimbursement from Medicare and Medicaid for inpatient and outpatient services, versus prospectively determined reimbursement in prior years. This is a significant improvement in reimbursement from Medicare, which represents about 59 percent of the Hospital's patient service revenues in 2006 and 56 percent in 2005, and Medicaid, which represents about 8 percent of the Hospital's patient service revenues in both 2006 and 2005.

Uncompensated care levels have increased \$17,461, or 2.2 percent from 2005 to 2006, and increased \$224,138, or 39.5 percent from 2004 to 2005 (decreased \$50,832 or 8.2 percent from 2003 to 2004). These are services provided for which there is no expectation of payment. The hospital is experiencing higher levels of bad debts, including accounts written off as charity care, and accounts sent to a third party for collection.

The Hospital's expense for employee health benefits has increased \$339,486, or 41.5 percent, from 2005 to 2006 and decreased \$2,951 from 2004 to 2005 (decreased \$215,905 from 2003 to 2004). There has been significant use of employee health benefits in 2006 after some leveling off in usage over the past several years.

The rate of healthcare inflation has a direct effect on the cost of services provided by the Hospital. A component of the Hospital's costs is the expense for prescription drugs. In 2006, prescription drug costs totaled \$684,823; in 2005 prescription drug costs totaled \$761,376, and in 2004, prescription drug costs totaled \$946,738. While the cost of individual drugs has continued to rise, the Hospital's overall costs have declined because in 2004, a new contract with the primary oncology group shifted the cost and the reimbursement for a large group of drugs to the physician group.

The Hospital sometimes provides care for patients who have little or no health insurance or other means of repayment. This service to the community is consistent with the goals established for the Hospital when it was established. Because there is no expectation of repayment, charity care is not reported as patient service revenues of the Hospital.

**MONTGOMERY COUNTY MEMORIAL HOSPITAL**  
**Management's Discussion and Analysis - Continued**

**NONOPERATING REVENUES AND EXPENSES**

Nonoperating revenues consist primarily of property taxes levied by the Hospital and interest revenue and investment earnings. The property valuation is calculated as of July 1 each year and used as the basis for tax levies on January 1.

**GRANTS, CONTRIBUTIONS, AND ENDOWMENTS**

The Hospital receives contributions from the Montgomery County Memorial Hospital Foundation, the Montgomery County Memorial Hospital Auxiliary, and from individual donors. The Hospital receives both capital and operating grants from various state and federal agencies for specific programs. These are discussed in Note A.13 to the financial statements.

**THE HOSPITAL'S CASH FLOWS**

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, discussed earlier.

**BUDGETARY HIGHLIGHTS**

The official county budget of the Hospital for the year ended June 30, 2006 was prepared on a modified accrual basis. Hospital expenditures during 2006 exceeded amounts budgeted. Expenditures in 2005 did not exceed amounts budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets:**

At the end of 2006, the Hospital had \$9,417,528 invested in capital assets, net of accumulated depreciation, as detailed in Note F to the financial statements. In 2006, the Hospital purchased new property and equipment costing \$1,849,072 (\$941,554 in 2005; \$584,949 in 2004). In 2005, the Hospital identified \$1,328,974 of fully depreciated capital assets that had been taken out of service, including \$524,558 in the Radiology area, where new RIS/PACS equipment has been installed.

**Debt:**

At year-end, the Hospital had \$4,011,965 in bonds payable, notes payable, and capital lease obligations outstanding as detailed in Note H (\$4,652,797 at June 30, 2005). The Hospital issued \$5,075,000 of 2003 Series Hospital Revenue Refunding Capital Loan notes in December 2003.

**OTHER ECONOMIC FACTORS**

There is nothing significant to note.

**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital Chief Financial Officer or Controller at Montgomery County Memorial Hospital, Red Oak, Iowa.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Balance Sheets  
June 30,

ASSETS

	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash	\$ 1,118,862	\$ 1,972,633
Patient receivables, less allowances for doubtful accounts and contractual adjustments (\$1,087,000 in 2006, \$1,245,000 in 2005)	3,477,529	3,433,211
Other receivables	71,214	65,400
Inventory	330,444	322,135
Prepaid expense	75,067	132,570
Estimated third-party payor settlements	202,000	409,000
Succeeding year property tax receivable	1,159,000	1,156,000
Internally designated assets	<u>920,467</u>	<u>1,276,053</u>
Total current assets	7,354,583	8,767,002
Designated and Restricted Assets:		
Internally designated assets	8,429,489	6,761,006
Restricted assets	<u>986,127</u>	<u>976,232</u>
	9,415,616	7,737,238
Less amounts required to meet current liabilities	<u>920,467</u>	<u>1,276,053</u>
	8,495,149	6,461,185
Capital Assets:		
Depreciable capital assets, net	9,241,965	8,679,719
Non-depreciable capital assets	<u>175,563</u>	<u>175,360</u>
	9,417,528	8,855,079
Other Assets:		
Deferred rent	21,111	28,148
Notes receivable	28,731	44,675
Equipment deposits	586,655	590,334
Other	<u>291,775</u>	<u>322,864</u>
	928,272	986,021
Total assets	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>

The accompanying notes are an integral part of these statements.

## LIABILITIES AND NET ASSETS

	<u>2006</u>	<u>2005</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 492,900	\$ 537,152
Accounts payable	462,495	946,271
Accrued salaries and wages	152,756	356,777
Accrued other employee compensation	563,734	533,576
Accrued interest payable	12,470	13,777
Accrued fees	17,000	16,800
Payroll taxes withheld and accrued	242,827	233,539
Other current liabilities	163,162	155,120
Deferred revenue for succeeding year property tax receivable	<u>1,159,000</u>	<u>1,156,000</u>
Total current liabilities	3,266,344	3,949,012
Long-Term Debt:		
Capitalized lease obligation, less current maturities	--	23,859
Notes payable, less unamortized discount and current maturities	2,985,993	3,409,751
Note payable, less current maturities	<u>97,823</u>	<u>143,106</u>
Total long-term debt	<u>3,083,816</u>	<u>3,576,716</u>
Total liabilities	6,350,160	7,525,728
Net Assets:		
Invested in capital assets, net of related debt	5,405,563	4,202,282
Restricted - expendable	986,127	976,232
Unrestricted	<u>13,453,682</u>	<u>12,365,045</u>
Total net assets	<u>19,845,372</u>	<u>17,543,559</u>
Total liabilities and net assets	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Revenues, Expenses and Changes in Net Assets  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Revenue:		
Net patient service revenue	\$ 20,475,146	\$ 18,910,939
Other revenue	<u>410,356</u>	<u>453,648</u>
Total revenue	20,885,502	19,364,587
Expenses:		
Nursing service	5,752,644	5,237,047
Other professional service	8,070,429	7,480,961
General service	2,069,302	1,911,734
Fiscal and administrative service	3,010,094	2,833,952
Provision for depreciation	<u>1,190,275</u>	<u>1,020,755</u>
Total expenses	<u>20,092,744</u>	<u>18,484,449</u>
Operating Income	792,758	880,138
Non-Operating Revenue (Expenses):		
County taxes	1,226,600	1,214,764
Investment income	313,831	207,081
Noncapital grants and contributions	60,672	111,223
Rental income, net	128,974	106,067
Loss on disposal of assets	( 485)	( 19)
Interest expense	<u>( 262,537)</u>	<u>( 284,138)</u>
Non-operating revenue, net	<u>1,467,055</u>	<u>1,354,978</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	2,259,813	2,235,116
Capital Grants and Contributions	<u>42,000</u>	<u>49,000</u>
Excess of Revenues Over Expenses and Increase in Net Assets	2,301,813	2,284,116
Net Assets - Beginning of Year	<u>17,543,559</u>	<u>15,259,443</u>
Net Assets - End of Year	<u>\$ 19,845,372</u>	<u>\$ 17,543,559</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 20,632,014	\$ 18,066,287
Cash paid to suppliers	( 9,524,426)	( 8,565,504)
Cash paid to employees	( 9,641,361)	( 8,643,966)
Other revenue received	<u>410,356</u>	<u>453,648</u>
Net cash provided by operating activities	1,876,583	1,310,465
Cash flows from non-capital financing activities:		
County tax received	1,226,600	1,214,764
Noncapital grants and contributions	<u>60,672</u>	<u>111,223</u>
Net cash provided by non-capital financing activities	1,287,272	1,325,987
Cash flows from capital and related financing activities:		
Construction in progress expenditures	( 203)	( 6,833)
Purchase of property and equipment	( 1,425,542)	( 879,473)
Equipment deposits	( 739,692)	( 139,362)
Principal paid on long-term debt	( 640,832)	( 619,619)
Interest paid	( 165,981)	( 182,078)
Capital grants and contributions	42,000	49,000
Proceeds from the sale of assets	500	--
Selling costs on sale of assets	<u>( 985)</u>	<u>--</u>
Net cash used in capital and related financing activities	( 2,930,735)	( 1,778,365)
Cash flows from investing activities:		
Investment income received	309,115	224,461
Increase in designated and restricted assets	( 1,195,491)	( 586,334)
Decrease in notes receivable, net	9,664	6,104
Office building rental income, net	236,903	225,990
(Increase) decrease in other assets	<u>31,089</u>	<u>( 21,233)</u>
Net cash used in investing activities	( 608,720)	( 151,012)
Net increase (decrease) in cash and cash equivalents	( 375,600)	707,075
Cash and cash equivalents at beginning of year	<u>2,304,104</u>	<u>1,597,029</u>
Cash and cash equivalents at end of year	<u>\$ 1,928,504</u>	<u>\$ 2,304,104</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Statements of Cash Flows - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Reconciliation of cash and cash equivalents to the balance sheets:		
Cash in current assets	\$ 1,118,862	\$ 1,972,633
Cash and cash equivalents in internally designated assets	<u>809,642</u>	<u>331,471</u>
	<u>\$ 1,928,504</u>	<u>\$ 2,304,104</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 792,758	\$ 880,138
Adjustments to reconcile operating income to net cash provided by operating activities		
Provision for depreciation	1,190,275	1,020,755
Provision for bad debts	809,592	792,131
Amortization of notes receivable	6,280	31,280
Changes in assets and liabilities		
Accounts receivable	( 859,724)	( 1,101,783)
Inventory	( 8,309)	24,744
Prepaid expense	57,503	( 25,462)
Estimated third-party payor settlements	207,000	( 535,000)
Accounts payable, trade	( 162,459)	73,720
Accrued salaries and wages	( 204,021)	61,212
Accrued other employee compensation	30,158	72,283
Accrued fees	200	950
Payroll taxes withheld and accrued	9,288	21,477
Other current liabilities	<u>8,042</u>	<u>( 5,980)</u>
Total adjustments	<u>1,083,825</u>	<u>430,327</u>
Net cash provided by operating activities	<u>\$ 1,876,583</u>	<u>\$ 1,310,465</u>

Non-Cash Transactions:

The Hospital also recorded the following non-cash transactions in addition to the transactions reflected in the reconciliation of operating income to net cash provided by operating activities.

	<u>2006</u>	<u>2005</u>
Increase (decrease) in unrealized gains	<u>\$ 4,716</u>	<u>\$ ( 17,380)</u>
Book value of traded assets	<u>\$ --</u>	<u>\$ 1,619</u>

The accompanying notes are an integral part of these statements.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES

1. Reporting Entity

Montgomery County Memorial Hospital (the Hospital) is a critical access county hospital that provides acute care with related ancillary, outpatient, and home health services. The Hospital is organized under Chapter 347 of the Code of Iowa, accordingly is a political subdivision of the State of Iowa, and is therefore exempt from federal and state income taxes. It is governed by a seven member board of trustees elected for six year terms. The Hospital has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The criteria for determining financial accountability include: appointing a majority of an organization's governing body, and (a) the Hospital's ability to impose its will on that organization, or (b) the potential for the organization to provide benefits to or impose financial burdens on the Hospital. The Hospital has one component unit. The Montgomery County Memorial Hospital Foundation is a component unit because the Hospital is the sole beneficiary of the Foundation. The Hospital has elected to exclude the financial information of its component unit from these financial statements which, when discreetly presented, would not materially affect the Hospital's Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets, or Statement of Cash Flows.

2. Enterprise Fund Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), that do not conflict with or contradict GASB pronouncements.

3. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with a maturity of three months or less, including designated and restricted assets.



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

5. Inventory Valuation

Inventory is valued at the lower of cost (first-in, first-out method) or market.

6. Investments

Investments are reported at fair value except for short-term highly liquid investments that have a remaining maturity at the time they are purchased of one year or less. These investments are carried at amortized cost. Interest, dividends, and gains and losses, both realized and unrealized, on investments are included in non-operating revenue when earned, unless restricted by donor or law.

7. Capital Assets

The Hospital's capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Capital assets with lives in excess of three years and cost in excess of \$2,000 are capitalized. These capital assets, other than land, are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using their estimated useful lives (fifteen to fifty years for buildings and land improvements and three to twenty years for equipment).

8. Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the Hospital's interest cost was capitalized in either 2006 or 2005.

9. Compensated Absences

Hospital employees earn paid time off at varying rates depending on years of service. Paid time off consists of holiday, vacation and sick time and accumulates to a maximum of 528 hours. Paid time off hours cannot be earned or saved beyond twice the annual amount earned. The computed amount of paid time off benefits earned by year end is recorded as part of accrued employee compensation.

10. Operating Revenues and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Hospital's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

11. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

12. Property Tax Levy

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

13. Grants and Contributions

Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

14. Endowments

Endowments are provided to the Hospital on a voluntary basis by individuals and private organizations. *Permanent* endowments require that the principal or corpus of the endowment be retained in perpetuity. If a donor has not provided specific instructions, law permits the Board of Trustees to authorize for expenditure the net appreciation of the investments of endowment funds. Currently, the Hospital has no endowment funds.

15. Restricted Resources

Use of restricted or unrestricted resources for individual projects is determined by the Hospital Board of Trustees based on the facts regarding each specific situation.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE A - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES - Continued

16. Net Assets

Net assets of the Hospital are classified in four components. *Net assets invested in capital assets net of related debt* consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with trustees as required by revenue bond indentures, discussed in Note H. *Restricted nonexpendable net assets* equal the principal portion of permanent endowments. *Unrestricted net assets* are remaining net assets that do not meet the definition of *invested in capital assets net of related debt or restricted*.

17. Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Revenue from services to these patients is automatically recorded in the accounting system at the established rates, but the Hospital does not pursue collection of the amounts. The resulting adjustments are recorded as bad debts or charity service depending on the timing of the charity determination.

NOTE B - THIRD-PARTY PAYOR ARRANGEMENTS

A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid - Inpatient services, most outpatient services, and defined capital costs related to program beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for the cost of services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediaries. The Hospital's Medicare cost reports have been audited and finalized by the fiscal intermediaries through September 30, 2004. The Medicaid cost reports have been audited through September 30, 2004. However, finalized cost reports are subject to re-opening by the intermediaries within three years of the date of finalization. Outpatient services not paid based on a cost reimbursement methodology are paid based on a prospectively determined fee schedule.

The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Hospital under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE C - ENDOWMENTS AND RESTRICTED NET ASSETS

Restricted expendable net assets are available for the following purposes:

	<u>2006</u>	<u>2005</u>
Long-term debt	<u>\$ 986,127</u>	<u>\$ 976,232</u>

The Hospital has no restricted nonexpendable net assets or endowments at June 30, 2006 or 2005.

Following is a summary of the use of temporarily restricted net assets during the year ended June 30:

	<u>2006</u>	<u>2005</u>
Purchase of property and equipment	<u>\$ 42,000</u>	<u>\$ 49,000</u>

NOTE D - DESIGNATED NET ASSETS

Designated assets remain under the control of the Board of Trustees, which may, at its discretion, later use the funds for other purposes. Of the \$13,453,682 (\$12,365,045 as of June 30, 2005) of unrestricted net assets as of June 30, 2006, \$8,429,489 (\$6,761,006 for 2005) has been designated by the Hospital's Board of Trustees for purposes identified in the following schedule.

	<u>2006</u>	<u>2005</u>
Capital acquisitions	\$ 7,975,603	\$ 6,324,126
Employee health insurance	<u>453,886</u>	<u>436,880</u>
	<u>\$ 8,429,489</u>	<u>\$ 6,761,006</u>

NOTE E - DEPOSITS AND INVESTMENTS

The Hospital's deposits at June 30, 2006 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds. The investments are all insured, registered, or held by the Hospital or its agent in the Hospital's name. Investments are stated as indicated in Note A.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE E - DEPOSITS AND INVESTMENTS - Continued

The Hospital is authorized by statute to invest public funds in obligations of the United States Government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The composition of designated and restricted assets is as follows:

	<u>2006</u>	<u>2005</u>
Internally Designated Assets:		
Cash and cash equivalents	\$ 607,957	\$ 130,409
Certificates of deposit	4,545,190	2,758,655
U.S. government agencies	--	669,038
Federal mortgage notes	3,149,745	3,146,445
Interest receivable	<u>126,597</u>	<u>56,459</u>
	<u>\$ 8,429,489</u>	<u>\$ 6,761,006</u>
Restricted Assets:		
Cash and cash equivalents	\$ 201,685	\$ 201,062
Certificates of deposit	272,748	271,501
U.S. government agencies	--	992
Federal mortgage notes	500,000	499,482
Accrued interest	<u>11,694</u>	<u>3,195</u>
	<u>\$ 986,127</u>	<u>\$ 976,232</u>

The Hospital's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Hospital.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE F - CAPITAL ASSETS

Capital assets, additions, disposals and balances for the years ended June 30, 2006 and 2005 were as follows:

<u>Cost</u>	<u>Balance 2005</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2006</u>
Land Improvements	\$ 1,011,283	\$ --	\$ --	\$ 1,011,283
Buildings	6,993,305	--	--	6,993,305
Building Components	1,829,668	68,117	--	1,897,785
Building Service Equipment	4,794,270	153,181	--	4,947,451
Fixed Equipment	553,774	--	--	553,774
Major Movable Equipment	8,470,145	1,627,774	--	10,097,919
	<u>23,652,445</u>	<u>1,849,072</u>	<u>--</u>	<u>25,501,517</u>
<u>Depreciation</u>				
Land Improvements	836,545	36,289	--	872,834
Buildings	2,197,994	188,294	--	2,386,288
Building Components	1,173,133	61,943	--	1,235,076
Building Service Equipment	3,639,757	227,508	--	3,867,265
Fixed Equipment	531,170	4,616	--	535,786
Major Movable Equipment	6,594,127	768,176	--	7,362,303
Total Depreciation	<u>14,972,726</u>	<u>1,286,826</u>	<u>--</u>	<u>16,259,552</u>
Depreciable Capital Assets, Net	<u>\$ 8,679,719</u>	<u>\$ 562,246</u>	<u>\$ --</u>	<u>\$ 9,241,965</u>
Construction in Progress	\$ 72,020	\$ 203	\$ --	\$ 72,223
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 175,360</u>	<u>\$ 203</u>	<u>\$ --</u>	<u>\$ 175,563</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE F - CAPITAL ASSETS - Continued

<u>Cost</u>	<u>Balance 2004</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 2005</u>
Land Improvements	\$ 1,009,983	\$ 1,300	\$ --	\$ 1,011,283
Buildings	6,993,305	--	--	6,993,305
Building Components	1,807,209	22,459	--	1,829,668
Building Service Equipment	4,719,943	74,327	--	4,794,270
Fixed Equipment	555,336	1,412	2,974	553,774
Major Movable Equipment	<u>8,976,756</u>	<u>842,056</u>	<u>1,348,667</u>	<u>8,470,145</u>
	24,062,532	941,554	1,351,641	23,652,445
<u>Depreciation</u>				
Land Improvements	789,697	46,848	--	836,545
Buildings	2,009,612	188,382	--	2,197,994
Building Components	1,109,770	63,363	--	1,173,133
Building Service Equipment	3,416,797	222,960	--	3,639,757
Fixed Equipment	525,040	9,104	2,974	531,170
Major Movable Equipment	<u>7,352,306</u>	<u>588,850</u>	<u>1,347,029</u>	<u>6,594,127</u>
Total Depreciation	<u>15,203,222</u>	<u>1,119,507</u>	<u>1,350,003</u>	<u>14,972,726</u>
Depreciable Capital Assets, Net	<u>\$ 8,859,310</u>	<u>\$( 177,953)</u>	<u>\$ 1,638</u>	<u>\$ 8,679,719</u>
Construction in Progress	\$ 65,187	\$ 6,833	\$ --	\$ 72,020
Land	<u>103,340</u>	<u>--</u>	<u>--</u>	<u>103,340</u>
Non-Depreciable Capital Assets	<u>\$ 168,527</u>	<u>\$ 6,833</u>	<u>\$ --</u>	<u>\$ 175,360</u>

The property and equipment includes a medical office building attached to the Hospital and related equipment totaling \$3,272,103, of which a major portion is rented to local physicians. The depreciation expense on all property and equipment totaled \$1,286,826 for the year ended June 30, 2006 (\$1,119,507 in 2005), of which \$96,551 (\$98,752 in 2005) is related to the space occupied by the physicians and is included in the net rental income under non-operating revenue.

NOTE G - DEFERRED RENT

The Hospital owned a physician clinic building located adjacent to the old Hospital site. The Hospital gave the clinic building to Montgomery County in return for free use of part of the building for a period of fifteen years ending June 30, 2009. The book value of the clinic building is being recognized as rent expense on a straight-line basis over the fifteen year period.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE G - DEFERRED RENT - Continued

The cost of the new office building is included with the assets of the Hospital (see Note F) and the net rental income is recorded as non-operating revenue.

The remaining balance of deferred rent on the old physician clinic building at June 30 follows:

	<u>2006</u>	<u>2005</u>
Deferred Rent	\$ <u>21,111</u>	\$ <u>28,148</u>

NOTE H - NON-CURRENT LIABILITIES

A schedule of changes in the Hospital's non-current liabilities for the years ended June 30, 2006 and 2005 follows:

	<u>Balance 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2006</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 1992 note	\$ 186,130	\$ --	\$ 43,024	\$ 143,106	\$ 45,283
Series 2003 notes	4,350,000	--	505,000	3,845,000	520,000
Less unamortized discount and debt issue costs	<u>( 538,929)</u>	<u>--</u>	<u>( 103,680)</u>	<u>( 435,249)</u>	<u>( 96,242)</u>
	3,997,201	--	444,344	3,552,857	469,041
Capital Lease Obligation	<u>116,667</u>	<u>--</u>	<u>92,808</u>	<u>23,859</u>	<u>23,859</u>
Total Long-Term Debt	<u>\$4,113,868</u>	<u>\$ --</u>	<u>\$ 537,152</u>	<u>\$3,576,716</u>	<u>\$ 492,900</u>
	<u>Balance 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 2005</u>	<u>Current Portion</u>
Long-Term Debt:					
Series 1992 note	\$ 227,008	\$ --	\$ 40,878	\$ 186,130	\$ 43,024
Series 2003 notes	4,840,000	--	490,000	4,350,000	505,000
Less unamortized discount and debt issue costs	<u>( 649,589)</u>	<u>--</u>	<u>( 110,660)</u>	<u>( 538,929)</u>	<u>( 103,680)</u>
	4,417,419	--	420,218	3,997,201	444,344
Capital Lease Obligation	<u>205,408</u>	<u>--</u>	<u>88,741</u>	<u>116,667</u>	<u>92,808</u>
Total Long-Term Debt	<u>\$4,622,827</u>	<u>\$ --</u>	<u>\$ 508,959</u>	<u>\$4,113,868</u>	<u>\$ 537,152</u>



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE H - NON-CURRENT LIABILITIES - Continued

The Series 1992 County Public Hospital Revenue Capital Loan note was issued in December, 1992. The note is payable from the revenues of the Hospital and matures in annual installments starting December 15, 1994 through December 15, 2008. The note has an interest rate of 5.25%.

The Series 2003 Hospital Revenue Refunding Capital Loan Notes were issued in December, 2003, with varying interest rates ranging from 1.50% to 4.60%. The notes were issued to refund the Series 1993 bonds. The notes mature in semi-annual installments through June, 2013 and are collateralized by the Hospital's net revenues.

Under the terms of the revenue notes indenture, the Hospital is required to maintain certain deposits with a bank. Such deposits are included with restricted assets in the financial statements.

Scheduled principal and interest repayments on long-term debt and payments on capital lease obligation are as follows:

Year Ending June 30,	Long-Term Debt		Capital Lease	
	Principal	Interest	Principal	Interest
2007	\$ 565,283	\$ 147,869	\$ 23,859	\$ 179
2008	572,660	130,415	--	--
2009	585,163	110,501	--	--
2010	545,000	90,033	--	--
2011	560,000	68,713	--	--
2012-13	<u>1,160,000</u>	<u>65,531</u>	<u>--</u>	<u>--</u>
	<u>\$ 3,988,106</u>	<u>\$ 613,062</u>	<u>\$ 23,859</u>	<u>\$ 179</u>

Total interest expense for the year ended June 30, 2006 was \$268,354 (\$291,661 in 2005). Interest of \$5,817 (\$7,523 in 2005) is related to the rental space portion of the office building and is included in the net rental income under non-operating revenue.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE I - PENSION AND RETIREMENT BENEFITS

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Hospital is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were approximately \$529,000, \$490,300, and \$461,700, respectively, equal to the required contributions for each year.

NOTE J - DEFERRED COMPENSATION PLAN

The Hospital sponsors a deferred compensation plan which is administered by an independent contractor under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The Hospital's human resource and payroll departments are responsible for the accounting, reconciliations and recordkeeping associated with employees' enrollment, payments to the plan through payroll deductions and timely transfer of withheld funds to the trustee designated by the participant for investment. The plan is designed so that each participant retains investment control of his/her individual account. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The Hospital's fiduciary responsibility is limited to due care in selecting the plan administrator. The administrator is responsible for withholdings and W-2s when the participants receive payments. The administrator is also required to submit an annual report to the Hospital. The Hospital is liable to a participant only for income lost because of its failure to send payment of a deferred amount as directed by the participant.

The market value of the exclusive benefit plan assets at June 30, 2006, was approximately \$1,381,200, (\$1,136,900 at June 30, 2005). This amount is not included in the financial statements since the Hospital does not own or hold in a trustee capacity the amounts deferred by employees and related income on those amounts.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE K - RELATED ORGANIZATION

Health Partners of Southwest Iowa

The Hospital has joined with two other area hospitals (Cass County Memorial Hospital of Atlantic and Myrtue Medical Center of Harlan) to form a 28E organization, Health Partners of Southwest Iowa (HPSI). The organization was formed to share ideas, capital, and resources and to assist in the containment of healthcare costs, while improving the quality of healthcare being delivered in the member hospital service areas. Each of the three members purchase mobile scanning and other medical services from the organization.

Below is a summary of the Hospital's transactions with HPSI and year end balances involving the 28E organization:

	<u>2006</u>	<u>2005</u>
Services purchased from HPSI	<u>\$ 101,453</u>	<u>\$ 119,589</u>
Services and supplies provided to HPSI	<u>\$ 26,028</u>	<u>\$ 32,591</u>
Amount due to HPSI	<u>\$ 19,943</u>	<u>\$ 19,350</u>
Member share of net assets	<u>\$ 261,675</u>	<u>\$ 267,232</u>

The member share of net assets is included in other assets and the amount due to HPSI is included in accounts payable on the balance sheet. The Hospital has no ongoing financial interest in or responsibility to HPSI, other than that disclosed above. Financial statements of HPSI will be on file at the Hospital and the office of the State Auditor.

Montgomery County Memorial Hospital Foundation

Montgomery County Memorial Hospital Foundation is a separate not for profit organization with an independent board of directors. The Hospital is the sole beneficiary of the Foundation. During the year ended June 30, 2006, contributions received from this organization were \$15,000 (\$25,000 for 2005).

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE L - COMMITMENTS AND CONTINGENCIES

Self-Funded Health Insurance

The Hospital has established an employee health insurance fund. Under the self-insured plan, the Hospital pays claims from this fund up to maximum limits and carries stop loss insurance for claims in excess of the limits. At June 30, 2006, the Hospital has designated funds in excess of actual claims paid of \$453,886 (\$436,880 at June 30, 2005). This amount of funds, shown under restricted assets, would be made available should they be needed to pay claims in the future. The estimated amount of unpaid claims at June 30, 2006 is approximately \$137,000 (\$120,000 at June 30, 2005), which is included in other current liabilities.

Notes Receivable

The notes receivable represent funds advanced under agreements with physicians who have begun to practice in the community. The agreements include commitments by the physicians to provide medical services in the community for a specified period of years. In exchange for the commitments of time and services, the Hospital will forgive the notes over the terms of the commitments.

Risk Management

The Hospital is insured by a claims-made policy for protection against liability claims resulting from professional services provided or which should have been provided. Management believes that the malpractice insurance coverage is adequate to cover all asserted and any unasserted claims, therefore no related liability has been accrued. Montgomery County Memorial Hospital is exposed to various other common business risks for which it is covered by commercial insurance. Settled claims from these risks have not exceeded insurance coverage during the past three years.

Construction in Progress

As of June 30, 2006, the Hospital incurred fees of \$72,223 for long-term site development planning. The project is being financed through the use of internally generated funds.

Equipment Deposits

As of June 30, 2006, the Hospital incurred costs of \$586,655 for the purchase of equipment and various computer hardware and software applications that had not been completed and placed in service. The total estimated cost to complete the remaining projects is \$140,000, which is being financed through the use of internally generated funds.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Notes to Financial Statements  
June 30, 2006 and 2005

NOTE M - ACCOUNTS RECEIVABLE AND CONCENTRATION OF CREDIT RISK

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2006 and 2005, was as follows:

	<u>2006</u>	<u>2005</u>
Receivable from:		
Patients	\$ 782,369	\$ 769,202
Medicare	2,147,503	1,858,310
Medicaid	289,292	446,920
Blue Cross	527,726	596,241
Other commercial insurance carriers	767,606	921,135
Others	<u>50,033</u>	<u>86,403</u>
	4,564,529	4,678,211
Less allowances for doubtful accounts and contractual adjustments	<u>1,087,000</u>	<u>1,245,000</u>
	<u><u>\$ 3,477,529</u></u>	<u><u>\$ 3,433,211</u></u>

\* \* \*

## REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Budgetary Comparison Schedule  
Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following the required public notice and hearings. The annual budget may be amended during the year utilizing similar statutorily-prescribed procedures. The following is a reconciliation between reported amounts and the modified accrual basis used to prepare the budget. The adjustment results from accounting for interest, plant and equipment purchases, debt payments, and net assets differently for financial statement and budget purposes.

	Per Financial Statements		
	Unrestricted Fund	Restricted Fund	Total
Amount raised by taxation	\$ 1,226,600	\$ --	\$ 1,226,600
Other revenues	21,125,957	42,000	21,167,957
Transfers in (out)	<u>32,105</u>	<u>( 32,105)</u>	<u>--</u>
	22,384,662	9,895	22,394,557
Expenses	<u>20,092,744</u>	<u>--</u>	<u>20,092,744</u>
Net	2,291,918	9,895	2,301,813
Balance beginning of year	<u>16,567,327</u>	<u>976,232</u>	<u>17,543,559</u>
Balance end of year	<u>\$ 18,859,245</u>	<u>\$ 986,127</u>	<u>\$ 19,845,372</u>

	Total Per Financial Statements	Budget Adjustments	Budget Basis	Adopted Budget
Amount raised by taxation	\$ 1,226,600	\$ --	\$ 1,226,600	\$ 1,155,814
Other revenues	<u>21,167,957</u>	<u>268,354</u>	<u>21,436,311</u>	<u>20,628,624</u>
	22,394,557	268,354	22,662,911	21,784,438
Expenses	<u>20,092,744</u>	<u>1,878,069</u>	<u>21,970,813</u>	<u>21,644,532</u>
Net	2,301,813	( 1,609,715)	692,098	139,906
Balance beginning of year	<u>17,543,559</u>	<u>( 6,589,085)</u>	<u>10,954,474</u>	<u>10,954,474</u>
Balance end of year	<u>\$ 19,845,372</u>	<u>\$( 8,198,800)</u>	<u>\$ 11,646,572</u>	<u>\$ 11,094,380</u>

Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted.

See Independent Auditor's Report.

## ACCOMPANYING INFORMATION



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Patient Receivables  
June 30,

Analysis of Aging:

<u>Days Since Discharge</u>	<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Percent to Total</u>	<u>Amount</u>	<u>Percent to Total</u>
0 - 30	\$ 1,156,893	25.3%	\$ 776,567	16.6%
31 - 90	1,114,916	24.4	1,566,219	33.5
91 - 180	459,257	10.1	496,422	10.6
181 - 360	164,560	3.6	205,429	4.4
361 and over	142,146	3.1	112,393	2.4
	3,037,772	66.5	3,157,030	67.5
In hospital and unbilled	1,526,757	33.5	1,521,181	32.5
	<u>4,564,529</u>	<u>100.0%</u>	<u>4,678,211</u>	<u>100.0%</u>
Less:				
Allowance for doubtful accounts	287,000		306,000	
Allowance for contractual adjustments	<u>800,000</u>		<u>939,000</u>	
	<u>\$ 3,477,529</u>		<u>\$ 3,433,211</u>	

Allowance for Doubtful Accounts:

	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Balance, beginning	\$ 306,000	\$ 326,000
Provision for bad debts	809,592	792,131
Recoveries of accounts previously written off	<u>227,828</u>	<u>189,627</u>
	1,343,420	1,307,758
Accounts written off	<u>1,056,420</u>	<u>1,001,758</u>
Balance, ending	<u>\$ 287,000</u>	<u>\$ 306,000</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Inventory/Prepaid Expense  
June 30,

	<u>2006</u>	<u>2005</u>
<u>Inventory</u>		
General stores	\$ 178,293	\$ 178,390
Pharmacy	142,408	133,084
Dietary	<u>9,743</u>	<u>10,661</u>
	<u>\$ 330,444</u>	<u>\$ 322,135</u>
 <u>Prepaid Expense</u>		
Dues	\$ 13,069	\$ 14,156
General insurance	61,998	79,807
Service contracts	<u>--</u>	<u>38,607</u>
	<u>\$ 75,067</u>	<u>\$ 132,570</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Patient Service Revenue  
Year ended June 30,

	2006	
	<u>Inpatient</u>	<u>Outpatient</u>
Daily Patient Services:		
Medical, surgical and obstetric	\$ 1,149,130	\$ 137,830
Coronary care	1,087,010	93,597
Nursery	<u>105,726</u>	<u>32</u>
	2,341,866	231,459
Other Nursing Services:		
Operating room	213,290	1,417,168
Recovery room	16,824	163,422
Labor and delivery rooms	100,268	39,725
Medical supplies	555,793	900,358
Intravenous therapy	691,538	252,876
Emergency service	53,116	1,640,479
Outpatient clinics	<u>1,449</u>	<u>193,848</u>
	1,632,278	4,607,876
Other Professional Services:		
Emergency room physicians	12,006	578,310
Laboratory	690,620	1,847,339
Electrocardiology	169,443	387,243
Electroencephalography	6,342	23,545
Radiology	106,897	1,161,402
Ultrasound	54,296	561,241
CT scan	219,700	1,294,339
Mammography	74	150,529
MRI	64,987	887,136
Nuclear medicine	24,569	146,413
Pharmacy	1,210,630	1,618,526
Anesthesiology	190,688	568,215
Inhalation therapy	822,416	219,034
Physical therapy	61,702	877,183
Speech therapy	10,823	26,316
Occupational therapy	18,233	174,301
Cardiopulmonary rehabilitation	--	121,778
Oncology	13,942	141,635
Sleep study	--	317,861
Home health	--	343,239
Hospice	14,950	298,319
Durable medical equipment	--	713,910
Business health	--	99,173
Women's health	79,890	476,270
Villisca Medical Clinic	<u>--</u>	<u>63,555</u>
	<u>3,772,208</u>	<u>13,096,812</u>
	<u>\$ 7,746,352</u>	<u>\$ 17,936,147</u>

See Independent Auditor's Report.

2006		2005
Swing Bed	Total	Total
\$ 892,350	\$ 2,179,310	\$ 1,711,450
--	1,180,607	1,045,349
--	105,758	104,576
<u>892,350</u>	<u>3,465,675</u>	<u>2,861,375</u>
23,024	1,653,482	1,591,182
1,120	181,366	175,797
--	139,993	139,547
160,561	1,616,712	1,785,215
268,148	1,212,562	1,115,865
563	1,694,158	1,612,210
1,904	197,201	200,609
<u>455,320</u>	<u>6,695,474</u>	<u>6,620,425</u>
--	590,316	578,977
151,914	2,689,873	2,473,114
11,195	567,881	511,819
906	30,793	28,997
25,193	1,293,492	1,398,301
9,081	624,618	642,229
28,482	1,542,521	1,474,700
--	150,603	156,693
9,922	962,045	1,039,775
6,137	177,119	216,592
616,785	3,445,941	3,543,138
9,038	767,941	823,561
589,543	1,630,993	1,525,165
140,432	1,079,317	1,137,291
8,798	45,937	36,420
40,608	233,142	244,204
--	121,778	102,326
6,080	161,657	23,913
--	317,861	300,980
--	343,239	336,713
--	313,269	193,697
--	713,910	694,620
--	99,173	151,307
151	556,311	490,008
--	63,555	--
<u>1,654,265</u>	<u>18,523,285</u>	<u>18,124,540</u>
<u>\$ 3,001,935</u>	<u>\$ 28,684,434</u>	<u>\$ 27,606,340</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Revenue and Related Adjustments  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Net Patient Service Revenue:		
Patient service revenue	\$ 28,684,434	\$ 27,606,340
Contractual adjustments	( 7,265,839)	( 7,800,659)
Discounts and allowances	( 133,857)	( 102,611)
Provision for bad debts	<u>( 809,592)</u>	<u>( 792,131)</u>
	<u>\$ 20,475,146</u>	<u>\$ 18,910,939</u>
Other Operating Revenue:		
Meals sold	\$ 74,687	\$ 72,788
Prisoner meals	23,844	21,948
Meals on wheels	27,730	27,731
Lifeline	55,999	52,803
Medical record transcripts	4,859	4,250
Case management	62,021	44,537
Wellness	25,242	24,122
Contracted services	79,694	162,583
Miscellaneous	<u>56,280</u>	<u>42,886</u>
	<u>\$ 410,356</u>	<u>\$ 453,648</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Administrative:		
Salaries and wages	\$ 136,821	\$ 126,255
Employee benefits	40,020	32,955
Supplies and other expense	<u>52,185</u>	<u>45,243</u>
	229,026	204,453
Quality Assurance:		
Salaries and wages	54,903	52,622
Employee benefits	10,706	9,546
Supplies and other expense	<u>12,550</u>	<u>5,188</u>
	78,159	67,356
Inservice:		
Salaries and wages	54,640	61,175
Employee benefits	19,424	17,166
Supplies and other expense	<u>25,219</u>	<u>14,154</u>
	99,283	92,495
Medical and Surgical:		
Salaries and wages	1,330,078	1,297,751
Employee benefits	382,101	301,005
Supplies and other expense	<u>112,399</u>	<u>94,195</u>
	1,824,578	1,692,951
Coronary Care:		
Salaries and wages	729,647	637,765
Employee benefits	219,721	168,739
Supplies and other expense	<u>26,317</u>	<u>26,536</u>
	975,685	833,040
Obstetric:		
Salaries and wages	55,665	56,809
Employee benefits	7,459	7,612
Supplies and other expense	<u>3,540</u>	<u>1,565</u>
	66,664	65,986

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Nursery:		
Salaries and wages	\$ 54,701	\$ 49,806
Employee benefits	7,330	6,674
Supplies and other expense	<u>6,257</u>	<u>3,367</u>
	68,288	59,847
Operating Room:		
Salaries and wages	449,796	393,828
Employee benefits	103,555	85,709
Supplies and other expense	<u>129,189</u>	<u>99,987</u>
	682,540	579,524
Labor and Delivery:		
Salaries and wages	26,105	24,750
Employee benefits	3,499	3,317
Supplies and other expense	<u>10,223</u>	<u>5,034</u>
	39,827	33,101
Central Services and Supply:		
Salaries and wages	154,996	145,379
Employee benefits	49,856	41,486
Supplies sold to patients	495,296	493,207
Supplies and other expense	<u>6,733</u>	<u>6,101</u>
	706,881	686,173
Intravenous Therapy:		
Solutions	33,566	30,383
Emergency Services:		
Salaries and wages	416,148	397,991
Employee benefits	88,748	76,114
Supplies and other expense	<u>21,770</u>	<u>18,083</u>
	526,666	492,188
Outpatient Clinics:		
Salaries and wages	298,981	302,259
Employee benefits	87,850	72,854
Supplies and other expense	<u>34,650</u>	<u>24,437</u>
	421,481	399,550
	<u>\$ 5,752,644</u>	<u>\$ 5,237,047</u>

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Nursing Service Expenses - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
<u>SUMMARY</u>		
Salaries and wages	\$ 3,762,481	\$ 3,546,390
Employee benefits	1,020,269	823,177
Other expense	<u>969,894</u>	<u>867,480</u>
	<u>\$ 5,752,644</u>	<u>\$ 5,237,047</u>

See Independent Auditor's Report.



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Emergency Room Physicians:		
Salaries and wages	\$       --	\$       240
Employee benefits	--	31
Professional fees	<u>380,788</u>	<u>369,332</u>
	380,788	369,603
Laboratory:		
Salaries and wages	361,962	335,363
Employee benefits	91,699	78,947
Purchased services	128,155	119,585
Supplies and other expense	<u>448,843</u>	<u>371,086</u>
	1,030,659	904,981
Blood Bank:		
Cost of blood	82,206	79,513
Electrocardiology:		
Salaries and wages	27,155	21,699
Employee benefits	3,639	2,908
Purchased services	120,945	104,270
Supplies and other expense	<u>2,478</u>	<u>2,874</u>
	154,217	131,751
Electroencephalography:		
Salaries and wages	4,165	3,212
Employee benefits	558	430
Supplies and other expense	<u>8,359</u>	<u>11,563</u>
	13,082	15,205
Radiology:		
Salaries and wages	393,728	343,382
Employee benefits	82,167	64,622
Supplies and other expense	<u>150,852</u>	<u>123,771</u>
	626,747	531,775
Ultrasound:		
Salaries and wages	67,766	57,017
Employee benefits	9,369	7,406
Supplies and other expense	<u>19,548</u>	<u>19,252</u>
	96,683	83,675

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
CT Scan:		
Salaries and wages	\$ 43,366	\$ 41,095
Employee benefits	13,668	10,810
Professional fees	27,612	20,258
Supplies and other expense	<u>52,270</u>	<u>29,666</u>
	136,916	101,829
Mammography:		
Purchased services	11,561	17,288
Supplies and other expense	<u>12,108</u>	<u>10,504</u>
	23,669	27,792
MRI:		
Purchased services	191,627	228,000
Supplies and other expense	<u>16,353</u>	<u>20,765</u>
	207,980	248,765
Nuclear Medicine:		
Purchased services	95,098	85,951
Supplies and other expense	<u>--</u>	<u>306</u>
	95,098	86,257
Pharmacy:		
Salaries and wages	249,838	258,113
Employee benefits	48,262	51,469
Purchased services	107,330	94,546
Drugs	684,823	761,376
Supplies and other expense	<u>12,724</u>	<u>9,395</u>
	1,102,977	1,174,899
Anesthesiology:		
Salaries and wages	429,554	526,550
Employee benefits	64,222	73,125
Professional fees	2,938	383
Supplies and other expense	<u>31,475</u>	<u>24,846</u>
	528,189	624,904
Inhalation Therapy:		
Salaries and wages	254,051	234,977
Employee benefits	60,208	49,292
Purchased services	96	--
Supplies and other expense	<u>314,831</u>	<u>298,284</u>
	629,186	582,553

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Physical Therapy:		
Professional fees	\$ 412,299	\$ 429,866
Supplies and other expense	<u>4,756</u>	<u>5,513</u>
	417,055	435,379
Speech Therapy:		
Professional fees	21,675	14,822
Supplies and other expense	<u>847</u>	<u>--</u>
	22,522	14,822
Occupational Therapy:		
Professional fees	86,595	95,373
Supplies and other expense	<u>295</u>	<u>201</u>
	86,890	95,574
Cardiopulmonary Rehabilitation:		
Salaries and wages	106,065	97,205
Employee benefits	14,217	13,158
Supplies and other expense	<u>9,210</u>	<u>7,364</u>
	129,492	117,727
Home Health:		
Salaries and wages	290,289	257,215
Employee benefits	67,964	63,095
Purchased services	63,695	65,858
Supplies and other expense	<u>24,647</u>	<u>21,447</u>
	446,595	407,615
Hospice:		
Salaries and wages	89,042	69,272
Employee benefits	11,936	8,909
Purchased services	51,490	32,025
Supplies and other expense	<u>49,962</u>	<u>31,140</u>
	202,430	141,346
Social Services:		
Salaries and wages	82,659	75,534
Employee benefits	22,257	18,569
Supplies and other expense	<u>1,191</u>	<u>1,480</u>
	106,107	95,583
Lifeline:		
Supplies and other expense	47,897	42,727

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Health Information Management:		
Salaries and wages	\$ 260,559	\$ 243,180
Employee benefits	57,261	51,244
Supplies and other expense	<u>63,945</u>	<u>54,751</u>
	381,765	349,175
Case Management:		
Salaries and wages	68,257	55,140
Employee benefits	8,413	7,149
Supplies and other expense	<u>8,718</u>	<u>2,904</u>
	85,388	65,193
Sleep Study:		
Salaries and wages	108,467	61,967
Employee benefits	14,590	8,549
Professional fees	1,275	9,859
Supplies and other expense	<u>17,038</u>	<u>7,992</u>
	141,370	88,367
Women's Health:		
Salaries and wages	311,445	300,422
Employee benefits	95,200	85,028
Supplies and other expense	<u>26,671</u>	<u>31,145</u>
	433,316	416,595
Business Health:		
Salaries and wages	84,762	81,825
Employee benefits	20,252	19,249
Supplies and other expense	<u>32,544</u>	<u>40,918</u>
	137,558	141,992
Villisca Medical Clinic:		
Salaries and wages	84,319	--
Employee benefits	19,258	--
Supplies and other expense	<u>39,022</u>	<u>--</u>
	142,599	--
Oncology:		
Salaries and wages	18,365	--
Employee benefits	2,060	--
Supplies and other expense	<u>40,169</u>	<u>--</u>
	60,594	--

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Other Professional Service Expenses - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Diabetes Program:		
Salaries and wages	\$ 92,638	\$ 83,135
Employee benefits	25,056	21,260
Supplies and other expense	<u>2,760</u>	<u>969</u>
	<u>120,454</u>	<u>105,364</u>
	<u>\$ 8,070,429</u>	<u>\$ 7,480,961</u>

SUMMARY

Salaries and wages	\$ 3,428,452	\$ 3,146,543
Employee benefits	732,256	635,250
Professional fees	933,182	939,893
Other expense	<u>2,976,539</u>	<u>2,759,275</u>
	<u>\$ 8,070,429</u>	<u>\$ 7,480,961</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
General Service Expenses  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Dietary:		
Salaries and wages	\$ 397,547	\$ 364,673
Employee benefits	148,816	121,528
Food	171,201	164,837
Supplies and other expense	<u>49,257</u>	<u>41,146</u>
	766,821	692,184
Housekeeping:		
Salaries and wages	304,238	279,855
Employee benefits	101,941	73,147
Purchased services	12,566	13,012
Supplies and other expense	<u>76,775</u>	<u>67,545</u>
	495,520	433,559
Laundry and Linen:		
Purchased services	92,948	94,633
Supplies and other expense	<u>2,686</u>	<u>2,362</u>
	95,634	96,995
Plant Engineering:		
Salaries and wages	175,906	162,298
Employee benefits	39,377	34,076
Utilities	369,556	335,483
Purchased services	27,630	32,894
Supplies and other expense	<u>98,858</u>	<u>124,245</u>
	711,327	688,996
	<u>\$ 2,069,302</u>	<u>\$ 1,911,734</u>

SUMMARY

Salaries and wages	\$ 877,691	\$ 806,826
Employee benefits	290,134	228,751
Other expense	<u>901,477</u>	<u>876,157</u>
	<u>\$ 2,069,302</u>	<u>\$ 1,911,734</u>

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Administrative:		
Salaries and wages	\$ 184,903	\$ 176,002
Employee benefits	192,211	200,861
Professional fees	54,932	50,985
Dues and subscriptions	41,586	46,970
Purchased services	37,784	16,788
Collection fees	58,467	55,495
Telephone	34,739	34,342
YMCA pledge and vocational building	--	10,000
Supplies and other expense	<u>120,144</u>	<u>167,351</u>
	724,766	758,794
Accounting:		
Salaries and wages	169,009	154,220
Employee benefits	47,667	39,938
Supplies and other expense	<u>9,275</u>	<u>25,403</u>
	225,951	219,561
Admissions/Business Office:		
Salaries and wages	173,077	170,522
Employee benefits	52,184	44,854
Supplies and other expense	<u>15,364</u>	<u>18,351</u>
	240,625	233,727
Patient Accounting:		
Salaries and wages	169,112	140,284
Employee benefits	52,404	40,592
Supplies and other expense	<u>41,575</u>	<u>38,693</u>
	263,091	219,569
Fiscal Services:		
Salaries and wages	126,358	118,641
Employee benefits	52,884	42,462
Purchased services	--	125
Supplies and other expense	<u>6,820</u>	<u>6,621</u>
	186,062	167,849
Information Systems:		
Salaries and wages	362,855	321,258
Employee benefits	98,485	80,556
Purchased services and maintenance	252,699	245,071
Supplies and other expense	<u>88,880</u>	<u>55,088</u>
	802,919	701,973

(continued next page)

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Fiscal and Administrative Service Expenses - Continued  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Human Resources:		
Salaries and wages	\$ 65,920	\$ 56,911
Employee benefits	33,541	27,819
Purchased services	548	1,191
Supplies and other expense	<u>10,636</u>	<u>21,638</u>
	110,645	107,559
Public Relations:		
Salaries and wages	62,691	58,697
Employee benefits	13,288	11,498
Supplies and other expense	<u>90,517</u>	<u>79,305</u>
	166,496	149,500
DRG/Utilization Review:		
Salaries and wages	84,949	81,167
Employee benefits	22,785	19,308
Purchased services	13,847	13,187
Supplies and other expense	<u>1,407</u>	<u>1,627</u>
	122,988	115,289
Insurance:		
Liability and property insurance	<u>166,551</u>	<u>160,131</u>
	<u>\$ 3,010,094</u>	<u>\$ 2,833,952</u>

SUMMARY

Salaries and wages	\$ 1,398,874	\$ 1,277,702
Employee benefits	565,449	507,888
Professional fees	54,932	50,985
Other expense	<u>990,839</u>	<u>997,377</u>
	<u>\$ 3,010,094</u>	<u>\$ 2,833,952</u>

SUMMARY OF EXPENSES

Salaries and wages	\$ 9,467,498	\$ 8,777,461
Employee benefits	2,608,108	2,195,066
Professional fees	988,114	990,878
Other expense	<u>5,838,749</u>	<u>5,500,289</u>
	<u>\$ 18,902,469</u>	<u>\$ 17,463,694</u>

See Independent Auditor's Report.



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statistics  
Year ended June 30,

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Admissions	1,136	1,142	1,232	1,395	1,419
Discharges	1,137	1,140	1,234	1,399	1,431
Average Length of Stay	3.42	3.36	3.26	3.79	4.12
Acute Patient Days	3,883	3,828	4,017	5,307	5,901
Average Occupied Beds	10.6	10.5	11.0	14.5	16.2
Swing Bed Days	2,673	2,963	3,311	3,309	3,489
Combined Average Occupied Beds	18.0	18.6	20.0	23.6	25.7
Beds Available	25	25	40	40	40
Nursery Days	240	251	203	201	178
Outpatient Occasions of Service	39,706	40,371	36,979	39,810	40,065

See Independent Auditor's Report.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Balance Sheets  
June 30,

	<u>2006</u>	<u>2005</u>
Current Assets:		
Cash	\$ 1,118,862	\$ 1,972,633
Receivables, net	3,548,743	3,498,611
Inventory	330,444	322,135
Prepaid expense	75,067	132,570
Estimated third-party payor settlements	202,000	409,000
Succeeding year property tax receivable	1,159,000	1,156,000
Internally designated assets	<u>920,467</u>	<u>1,276,053</u>
Total current assets	7,354,583	8,767,002
Other Assets:		
Internally designated and restricted assets	8,495,149	6,461,185
Capital assets, net	9,417,528	8,855,079
Other non-current assets	<u>928,272</u>	<u>986,021</u>
Total other assets	18,840,949	16,302,285
	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>
Current Liabilities:		
Current maturities of long-term debt	\$ 492,900	\$ 537,152
Accounts payable	462,495	946,271
Estimated third-party payor settlements	--	--
Accrued expenses	1,151,949	1,309,589
Deferred revenue for succeeding year property tax receivable	<u>1,159,000</u>	<u>1,156,000</u>
Total current liabilities	3,266,344	3,949,012
Long-Term Debt, Net	3,083,816	3,576,716
Net Assets	<u>19,845,372</u>	<u>17,543,559</u>
	<u>\$ 26,195,532</u>	<u>\$ 25,069,287</u>

See Independent Auditor's Report.

<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 1,357,807	\$ 1,071,955	\$ 1,401,570
3,188,959	2,942,681	3,070,160
346,879	337,803	337,282
107,108	87,541	40,535
--	755,000	261,000
1,151,000	1,155,000	1,127,000
<u>825,652</u>	<u>722,798</u>	<u>578,053</u>
6,977,405	7,072,778	6,815,600
6,250,383	6,131,966	5,189,906
9,027,837	9,667,532	10,031,894
<u>499,146</u>	<u>419,525</u>	<u>444,591</u>
15,777,366	16,219,023	15,666,391
<u>\$ 22,754,771</u>	<u>\$ 23,291,801</u>	<u>\$ 22,481,991</u>
\$ 508,959	\$ 425,191	\$ 388,976
434,777	472,365	506,483
126,000	--	--
1,160,724	1,190,058	996,719
<u>1,151,000</u>	<u>1,155,000</u>	<u>1,127,000</u>
3,381,460	3,242,614	3,019,178
4,113,868	4,842,581	5,267,772
<u>15,259,443</u>	<u>15,206,606</u>	<u>14,195,041</u>
<u>\$ 22,754,771</u>	<u>\$ 23,291,801</u>	<u>\$ 22,481,991</u>

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Comparative Statements of Revenues and Expenses  
Year ended June 30,

	<u>2006</u>	<u>2005</u>
Patient Service Revenue	\$ 28,684,434	\$ 27,606,340
Adjustments to Patient Service Revenue	<u>( 8,209,288)</u>	<u>( 8,695,401)</u>
Net Patient Service Revenue	20,475,146	18,910,939
Other Revenue	<u>410,356</u>	<u>453,648</u>
Total Revenue	20,885,502	19,364,587
Expenses	<u>20,092,744</u>	<u>18,484,449</u>
Operating Income (Loss)	792,758	880,138
Non-Operating Revenue, Net	<u>1,467,055</u>	<u>1,354,978</u>
Excess of Revenues Over Expenses (Expenses Over Revenues) Before Capital Grants and Contributions and Unusual Item	2,259,813	2,235,116
Capital Grants and Contributions	42,000	49,000
Unusual Item	<u>--</u>	<u>--</u>
Excess of Revenues Over Expenses	<u>\$ 2,301,813</u>	<u>\$ 2,284,116</u>

See Independent Auditor's Report.

<u>2004</u>	<u>2003</u>	<u>2002</u>
\$ 26,670,913	\$ 27,407,714	\$ 24,775,662
<u>( 10,782,724)</u>	<u>( 10,960,758)</u>	<u>( 9,035,703)</u>
15,888,189	16,446,956	15,739,959
<u>457,592</u>	<u>512,106</u>	<u>627,629</u>
16,345,781	16,959,062	16,367,588
<u>17,469,880</u>	<u>18,153,227</u>	<u>16,860,602</u>
( 1,124,099)	( 1,194,165)	( 493,014)
<u>1,121,936</u>	<u>1,275,616</u>	<u>1,036,578</u>
( 2,163)	81,451	543,564
55,000	101,000	65,000
<u>--</u>	<u>829,114</u>	<u>--</u>
<u>\$ 52,837</u>	<u>\$ 1,011,565</u>	<u>\$ 608,564</u>

## COMMENTS AND RECOMMENDATIONS

# Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369  
ATLANTIC, IOWA 50022-0369  
(712) 243-1800  
FAX (712) 243-1265  
CPA@GBKCO.COM

ROGER A. BELL  
MARK D. KYHNN  
DAVID L. HANNASCH  
KENNETH P. TEGELS  
CHRISTOPHER J. NELSON  
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Trustees  
Montgomery County Memorial Hospital  
Red Oak, Iowa

We have audited the accompanying financial statements of Montgomery County Memorial Hospital as of and for the year ended June 30, 2006, and have issued our report thereon dated December 5, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Montgomery County Memorial Hospital's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Montgomery County Memorial Hospital's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the Schedule of Findings, we believe item 06-I-A is a material weakness.

To the Board of Trustees  
Montgomery County Memorial Hospital

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Montgomery County Memorial Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted an immaterial instance of non-compliance or other matter that is described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and constituents of Montgomery County Memorial Hospital and other parties to whom the Hospital may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*G. Newbold, Bell, Kyhn & Co. P.C.*

Atlantic, Iowa  
December 5, 2006



MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2006

PART I - REPORTABLE CONDITIONS

06-I-A Segregation of Duties: A limited number of people have the primary responsibility for most of the accounting and financial duties. As a result, some of those aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing in the Hospital.

Recommendation: We recognize that it may not be economically feasible for the Hospital to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Board be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the Hospital to employ additional personnel for this reason. The Board will continue to act as an oversight group.

Conclusion: Response accepted.

\* \* \*

PART II - REQUIRED STATUTORY REPORTING

06-II-A Certified Budget: Hospital expenditures during the year ended June 30, 2006 exceeded amounts budgeted.

Recommendation: The budget should have been amended in accordance with Chapter 331.435 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: We will amend the budget when required in the future.

Conclusion: Response accepted.

06-II-B Questionable Expenditures: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Board members.

06-II-C Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted.

06-II-D Business Transactions: During our audit, we noted no business transactions between the Hospital and Hospital officials.

MONTGOMERY COUNTY MEMORIAL HOSPITAL  
Schedule of Findings  
Year ended June 30, 2006

PART II - REQUIRED STATUTORY REPORTING - Continued

06-II-E Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

06-II-F Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy.

\* \* \*